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September 27, 2011

The Honorable Daniel R. Elliott, III  
Chairman  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423  
U.S.A.

*Re: End of Year 2011 Railroad Service Outlook*

Dear Mr. Chairman:

Thank you for your September 6, 2011 letter requesting information about CN's plans and outlook for our system in the United States for the remainder of 2011.

Impacts of Flooding and Extreme Weather Conditions

Major rain and flooding occurred in April and May in CN's U.S. service area in southern Illinois, western Kentucky, and Tennessee, northern Mississippi, and Louisiana. The following CN subdivisions were affected as a result of heavy rains and flooding of the Mississippi and Ohio Rivers and multiple tributaries:

- Centralia Sub - out of service at mile 360 - 362.8 for three weeks;
- Cairo Sub - out of service at mile 365 - 370 for three weeks;
- Memphis Sub - out of service for two weeks;
- Low Line (Yazoo Sub - Memphis) - out of service for two weeks;
- Y&MV (Memphis) - out of service for two weeks;
- Baton Rouge Sub - affected by the Mississippi River at Baton Rouge - speed restricted for three weeks to 10 mph departing the yard; and
- McComb Sub – Bonnet Carre Spillway bridge washed out and out of service for one week and speed restricted for repairs until mid-October.

In June, extreme weather affected the following CN subdivisions in the United States;

- Dubuque Sub - out of service at mile 152.7-197.7 for four days due to wash-outs and heavy rains and flooding;
- Omaha Sub - out of service at mile 499 - 510 since early June due to flooding of the Missouri River near Council Bluffs, Iowa. This line is expected to re-open by early October.

We estimate that the total costs related to this extreme weather and flooding will be nearly \$15 million.

I would also note that for approximately the past six months, CN has provided various detours for several of our freight rail industry colleagues to assist them in their weather-related flooding recoveries and enable them to maintain fluidity on their systems.

#### End-of Year Shipping Season

CN has undertaken a number of initiatives to ensure that we are in a position to efficiently handle our customers' end-of-year freight transportation needs.

Of particular note is our precision planning process (P3X), which we introduced in 2010. The process brings together Marketing, Finance, and Operations on a regular basis to review detailed traffic projections and associated resource requirements. Through P3X we anticipate crew, locomotive, car fleet and network requirements, driving detailed hiring and asset investments. This precision has increased our ability to ensure we have the right resources, at the right place and the right time.

CN's focus on end-to-end supply chains is also strengthening the integration of our planning with that of our customers. This further improves our resource planning capability.

Currently, we expect that CN will have sufficient resources to accommodate expected volume growth. We have an ample grain fleet, for example, to handle the seasonal uptick in grain shipments, especially as it appears that this year's export program will be smaller than originally envisioned.

With respect to network capacity and infrastructure, a major element of our implementation of the Elgin, Joliet and Eastern Railway (EJ&E) transaction, namely, the improved connection between the EJ&E and Illinois Central lines at Matteson, is scheduled to go into operation at the end of September. This will enable a more efficient route for our trains around the city of Chicago, and into our main switching/work facilities.

With respect to employment, we have hired 572 employees in the United States in 2011 to date, 337 of whom are transportation and engineering employees (non-management).

#### Freight Service Investments and Capacity Improvements

*2011 Capital Plan.* For 2011, CN plans to invest approximately US\$1.66 billion on capital programs systemwide, similar to the amount spent in 2010. For the balance of 2011, CN expects to spend a total of US\$800 million, of which US\$220 million will be utilized for U.S. projects.

The majority of our capital investment program is targeted on track infrastructure to maintain safe railway operations and to improve the productivity and fluidity of our rail network. This includes replacement of rail, ties, and other track materials, as well as bridge improvement.

CN's equipment spending, which is intended to improve the quality of the fleet to meet customer requirements, includes the acquisition of 12 new fuel-efficient locomotives as well as freight cars. Such spending is targeted to reach approximately US\$200 million in 2011. CN will continue the program of refurbishing our iron ore fleet, and nearly 250 new ore cars were added in 2011 for transporting pelletized iron ore produced in the Upper Midwest.

CN will continue in 2011 the integration of the recently-acquired EJ&E property in the Chicago area. The acquisition is expected to drive new efficiencies and operating improvements on CN's network as a result of streamlined rail operations and reduced congestion in the region. Over the next few years, CN will continue to work on a series of rail connections, line upgrades, and mitigation measures. It is expected that roughly US\$60 million will be spent on EJ&E implementation in 2011. In addition, CN has started this year the upgrade of our Kirk Yard facility in Gary, Indiana, with approximately US\$30 million being invested in 2011.

Overall, as CN has continued investing in the quality and capacity of our network over the years, we do not have major rail congestion points on our network nor do we have any critical capacity-related infrastructure needs at this time.

Lastly, implementation costs associated with the federal requirement to implement Positive Train Control (PTC) technology by 2015 on lines on our system in the U.S. over which passengers or toxic-by-inhalation or poisonous-by-inhalation hazardous materials are transported will amount to about US\$25 million in 2011, and approximately US\$220 million for the entire project.

*Intermodal.* CN has invested in a number of intermodal terminal improvement projects. A new gate system was completed in Chicago to improve gate capacity and velocity. We are installing a computerized terminal operating system in Memphis to improve productivity and service.

CN acquired more than 1,000 new containers this year to better serve manufacturers and distributors of grocery and consumer goods in the U.S. and Canadian domestic markets that we serve. We have also increased driver capacity at many of our U.S. terminals in order to handle the additional volumes from customers requiring pick-up and delivery service.

CN is exploring other opportunities in the U.S. to provide international and domestic customers with additional shipping alternatives for export and transborder traffic, which will help reduce their transportation costs.

#### Passenger Rail Service Access and Performance

*Access.* CN continues to work with Amtrak and Metra in connection with the service they offer on portions of our network. CN and Amtrak concluded negotiations for a new Operating Agreement that became effective May 1, 2011, replacing a 16-year-old contract with one that better reflects today's operating conditions.

CN has also worked with various State Departments of Transportation on their applications for federal funding for intercity rail passenger operations. Of particular note are two separate capacity studies CN will soon be undertaking for the Illinois Department of Transportation (IDOT) to explore the feasibility of expanded service for both Amtrak and Metra between Chicago and Joliet, Illinois, and new service between Chicago and Dubuque, Iowa on an all-CN route.

In addition, we recently have begun a four-way dialogue with Amtrak, IDOT, and Metra to explore the possibility of extending some Amtrak trains' routes through Chicago Union Station to give airline passengers access to Metra's O'Hare Transfer station.

*Amtrak On-Time Performance (OTP) on CN Lines.* CN recognizes the importance of working with Amtrak to improve OTP for Amtrak service that operates on CN's tracks. Amtrak operates a total of 32 trains on CN lines: 24 regional trains on CN lines in Illinois and Michigan (six of which actually operate over two separate segments in Michigan on CN along their route), as well as one pair of long distance trains between Chicago and New Orleans. As 2011 has progressed, we have seen an improvement in contractual OTP.

We are also fully aware of the OTP and delay metrics adopted by the Federal Railroad Administration (FRA) and Amtrak in 2010. It is important to note that CN's Operating Agreement with Amtrak measures OTP based on run time minutes and relief for delays that are beyond CN's control, while the FRA/Amtrak standards are different, measuring, among other things, end-point OTP (and, beginning in FY 2012, station-to-station OTP) using Amtrak-published schedules and less refined data concerning relief for delays. We have joined an industry suit challenging the constitutionality of Amtrak's joint role with the Federal Railroad Administration in the adoption of the metrics. Nevertheless, we have begun a meaningful dialogue with Amtrak to identify and seek remedies for the root causes of delays that affect FRA's measure of OTP. This will be an on-going mutual effort to try to maximize OTP.

Last year, we wrote about continuing issues related to what appears to be the failure of Amtrak equipment to properly shunt grade crossing protection systems and CTC. The CN-mandated 30 axle per train minimum requirement to assure proper shunting remains in effect on much of our system, while the requirement has been reduced to 24 axles on certain subdivisions. These restrictions allow trains to operate at track speed while - most importantly - still maintaining public safety. Since implementation of the requirements, there have been no unexplained failures of activation at grade crossings. Discussions with Amtrak about a permanent solution have continued into late 2011.

#### Customer Service

As I noted last year, one of my primary goals as CN's CEO is for CN to become a more customer-centric company, and I am pleased to say that we have continued to improve our dialogue with our customers.

We have delivered innovative supply-chain solutions to our customers as well as improved service and flexibility. CN also has been actively engaged in advancing our partnerships with key supply chain stakeholders through groundbreaking collaborative service agreements.

We have introduced end-to-end shipment scorecards to instil greater accountability for meeting customer commitments and to identify and solve issues before they become critical. We also took concrete steps to improve supply chain efficiencies and increase our capacity to serve a number of specific markets, including steel and automotive. We have brought important improvements to our first-mile/last-mile activities, where customers have the most direct contact with CN. We have been sharpening our focus on car order fulfillment, to help our customers grow and be more competitive in their markets.

From September 2010 – June 2011, CN undertook a survey of our major customers across our North American system, with a total of 377 participants providing responses over this period. The key themes we heard from our customers include:

- A majority of CN customers have noticed an improvement in customer service over the past year, both in the carload and intermodal sectors. Carload service is considered overall to be fair, with merchandise service viewed as good, and unit train service fair. Domestic and international intermodal is viewed by our customers as good to excellent.
- The customers surveyed gave our account managers excellent reviews.
- Empty car supply, switching services, optional services billing, and communication still require attention and are receiving major attention.
- Recovery planning is a major customer pain point; developing a communication plan when service fails is vital.

In addition to acting now on the top recommendations that emerged from our customer survey, we are continuing our outreach to our customers. The next survey phase, commencing this month, will cover more representatives of our customers and with more of a focus on supply chain innovation and collaboration.

The Honorable Daniel R. Elliott, III  
September 27, 2011  
Page 7

Thank you for this opportunity to comment on CN's operations and upcoming plans. Please do not hesitate to contact me if you need any additional information.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Claude Mongeau', with a stylized, cursive script.

Claude Mongeau  
President and  
Chief Executive Officer

cc: Vice Chairman Begeman  
Commissioner Mulvey